The Impact of E-Commerce on Traditional Retailers

Case Study: Nordstrom

An Honors Thesis (HONRS 499)

by

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Abstract:

As an undergraduate student majoring in marketing, with a minor in fashion merchandising, the business of the fashion and apparel industry is extremely appealing to my career interests. After spending a summer working in this field as a retail intern for Nordstrom, not only did I gain considerable experience in the business of fashion retailing, but developed an interest in how Nordstrom consistently outperforms the numerous competitors in this great industry. Using Nordstrom as a case study, I explored the electronic commerce (e-commerce) trend that is on the rise for retailers of all merchandise lines, focusing on the apparel and accessories industry. This honors thesis is a culmination of my research of e-commerce and how it is implemented into retail businesses successfully, as well as an analysis of Nordstrom as a top retailer and prime example of successful e-commerce implementation. The impact of a multi-channel strategy is assessed, using the analysis of Nordstrom data as support. My personal observations and experiences working for Nordstrom are incorporated into this thesis, and I offer recommendations for managing inventories and sales of both online and in-store transactions. Finally, I address the predictions for a successful future in retailing.

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The unveiling of the Internet in the mid 1990s was an "unprecedented event in the history of information and communications technology" (Vulkan, 2003, p. 1). Likely overlooked at the time as a life changing event, nevertheless, the Internet has forever changed the way many individuals and organizations complete tasks on a daily basis. Businesses every day operations now are completed via digital media. One reason the Internet has developed so rapidly is because it serves as a substitute for many other services, products, and traditional forms of interaction. For example, e-mail serves as a primary communication for business and personal purposes, and tasks such as making bill payments or transferring money into a bank account can now be completed through the Internet. Online retailing is one such substitute, which offers consumers a new outlet for making purchases.

As reported by the United States Census Bureau in their most recent report (2009), growth in computer and Internet use is increasing at every level of education, in every age group, for people of every race, and among both men and women. Internet users are engaging in a wide variety of online activities. According to the 2001 Census survey, over 39% of Internet users reported making online purchases. About half of the people in the 25-34 age group, as well as the 35-44 age group, used the Internet for online shopping.

The market definition of the Internet retail sector consists of total revenues generated through the sale of retail goods via online channels, valued at retail selling price ("Online Retail," 2009). The US dominates the global online retail sector with a share of 65.3%. The US online retail sector generated total revenues of $141.6 billion in 2007 ("Online Retail," 2009).

In 2000, the total value of products and services bought by US consumers was $3 trillion, with the value of those bought online accounting for $12 billion of that total value (Birkin & Clarke, 2002, p. 90). While $12 billion may seem like a large value, it is relatively small in comparison to the value of the overall market. This may be because consumers, although becoming more accepting of purchasing online, are more likely to view e-commerce as predominantly a vehicle for window shopping. There has been a recent significant growth in US online retail spending, however. Purchasing habits are beginning to shift to favor interactive online channels. Retail e-commerce revenue is expected to increase at an 11.3% average annual growth rate during the period 2007-2012 ("Online Retail," 2008). "According to Forrester Research Inc., consumers are projected to spend $19.3 billion online this year on apparel, accessories, and shoes" (Lamm, 2008). By 2011, this amount is expected to exceed $28 billion.

In a market historically dominated by consumer electronic products, online retailing has recently seen a shift to apparel as the top category performer. The growing popularity of apparel purchasing online has been boosted by shipping offers and simpler returns, as well as increasing technological adoption by women (Brown & Riley-Katz, 2008). The U.S. Census Bureau Report for e-commerce shows that a majority 60.9% of total sales in clothing and clothing accessories occurred through e-commerce transactions in 2006 (U.S. Census Bureau, 2009). (See Table 1)

Table 1: Retail Sales by Merchandise Line, 2006

Merchandise line	Value of sales, total, 2005 (mil. dol.)	2006 Value of sales (mil. dol.) Total	2006 Value of sales (mil. dol.) E-commerce	2006 E-commerce as percent of total sales	2006 Percent distribution Total	2006 Percent distribution E-commerce
Total	**164,345**	**190,865**	**75,230**	**39.4**	**100.0**	**100.0**
Books and magazines	5,729	6,306	(S)	(S)	3.3	(S)
Clothing and clothing accessories (includes footwear)	17,109	19,290	11,752	60.9	10.1	15.6
Computer hardware	19,998	20,664	8,915	43.1	10.8	11.9
Computer software	3,931	4,265	2,218	52.0	2.2	2.9
Drugs, health aids, beauty aids	45,734	59,641	4,238	7.1	31.2	5.6
Electronics and appliances	8,749	10,074	6,987	69.4	5.3	9.3
Food, beer, and wine	2,944	3,448	1,729	50.1	1.8	2.3
Furniture and home furnishings	9,838	11,407	7,028	61.6	6.0	9.3
Music and videos	3,824	4,436	3,141	70.8	2.3	4.2
Office equipment and supplies	6,858	7,860	4,869	61.9	4.1	6.5
Sporting goods	3,872	4,201	2,422	57.7	2.2	3.2
Toys, hobby goods, and games	3,724	3,697	1,891	51.1	1.9	2.5
Other merchandise [1]	24,451	26,476	11,123	42.0	13.9	14.8
Nonmerchandise receipts [2]	7,584	9,100	5,392	59.3	4.8	7.2

E-commerce, or simply selling online, is culturally a product of the late 1990s (May, 2000, p. 28). Although it wasn't until 1994 that the Internet migrated to public ownership, e-commerce has actually been around for 30 years. Since the late 1960s, Electronic Data Interchange (EDI) has enabled computer systems to exchange transaction information across communication networks (May, 2000, p. 28). Today Electronic Data Interchange streamlines payables and receivables electronically through a standardized format (IBM, 2002). The Internet can be leveraged as the communications transport mechanism for transactions. Other benefits to EDI users include reduction of costly errors, elimination of printing, paper, and mailing costs, and reduction of administrative time, and more.

The phenomenal growth in e-commerce can be credited to the increased access to the Internet (Vulkan, 2003, p.11). In the United States, Internet access reached a volume of 224 million users in the year 2007, and is expected to continue increasing with a forecasted volume of 275 million users by 2012 ("Internet Access," 2008). Retail sales are expected to continue rising along with the increasing number of online users, including significant retail sales of apparel, accessories, and footwear. (See Table 2)

Table 2: Projected Online Retail Sales 2007-2012

[In billions of dollars (174.5 represents $174,500,000,000)]

Online product or service	2007	2008	2009	2010	2011	2012
Retail trade, total [1]	**174.5**	**204.0**	**235.4**	**267.8**	**301.0**	**334.7**
Apparel/accessories/footwear	22.7	26.6	30.5	34.4	38.2	41.8
Appliances/tools	7.5	9.0	10.7	12.6	14.6	16.9
Auto/auto parts	16.8	19.3	21.9	24.8	27.8	30.9
Computer hardware/software	20.7	23.9	27.1	30.4	33.7	37.1
Consumer electronics	13.5	16.3	19.4	22.6	26.0	29.5
Food/beverages/groceries	6.2	7.3	8.7	10.2	11.9	13.7
Home furnishings	12.3	14.8	17.6	20.5	23.6	26.7
Music/videos	8.2	8.9	9.8	10.5	11.1	11.7

[1] Excludes travel. Includes other products/services not shown separately.

Source: Forrester Research, Inc., Cambridge, MA, *US eCommerce Forecast: 2008 To 2012*, January 18, 2008 (copyright).

Fears that the Web would eliminate the role of the retailer were widespread during the initial days of e-commerce. These fears were based on the idea that product manufacturers would be able to sell directly to the final consumers, removing wholesalers and retailers in the channel of distribution. To date, however, Web-based e-commerce has shown no signs of destroying traditional retailing.

Although the Internet has not destroyed brick-and-mortar retailing like some once feared, it has significantly changed the methods of retailing as well as the purchasing habits of consumers. E-commerce has put a significant amount of control in the hands of shoppers, who have become habituated to both the speed and convenience of purchasing online (Byrnes, 2007). The Internet provides consumers with the capabilities to shop around the clock, from any location, as well as easily access research about product's attributes and competitive pricing. Byrnes (2007) reported that 69% of consumers research products online before going to a store to make a purchase, 39% compare a product's features and price across retail outlets online before buying, and 61% want to be able to scan bar codes and access information on other stores' prices.

Even the best retail companies cannot duplicate these services for their customers. Working toward satisfying this need for control in an ideal shopping experience, however, is the current goal of many retail establishments. With the fast paced lifestyles of Americans today, consumers don't always have the patience or the time to browse through stores or shop for enjoyment. Declining foot traffic, as cited by industry watchers, serves as evidence that this great American pastime is losing ground to Web-based entertainment (Byrnes, 2007). To keep up with the pace of their consumers, many retailers are installing kiosks that will easily search inventory, locate merchandise, and order out-of-stock items for consumers. It has been estimated by AMR

Research that retailers will spend $766 million on this type of technology this year (Byrnes, 2007).

Most people would define e-commerce as the selling of goods over the Web and will remark that such goods can come from any country. From the perspective of corporations, e-commerce is a channel which serves an additional source of customers who are fairly inexpensive to service (May, 2000). This new channel has been exploited by retailers, both existing players and new entrants (Birkin & Clarke, 2002). The common perception of Internet retailing is as "a single homogenous activity- the selling of goods and services via the worldwide web" (Birkin & Clarke, 2002, p.89).

There are slight differences in the types of retail activities that take place over the Internet, however. In general, there are four levels of using the Internet in the business of retail, which differ in the levels of service. Level 1 is comprised of Internet sites that strictly provide general marketing information about a company and its products or services. The initial presence of retailers online emerged as level 1 sites in the mid-1990s, but these are practically obsolete in today's online environment. Level 2 Internet services add an interaction aspect between the customer and the company. This could be in the form of email or phone-me capabilities. Through the internet, websites in the second service level offer the option for customers to request contact with the company who owns and operates the site. Level 3 then builds on this, by adding the capture of customer information through a required registration form before a customer can view the actual site content. Capturing this information is crucial for an online retailer because it allows them to target specific groups of customers based on the records they collected. The highest level of service in an online retail activity is level 4, and at this level a full e-commerce service is provided. This includes a complete transaction and involves making payments via the Internet (Birkin & Clarke, 2002).

The growth of the Internet has been a substantial driver for the retail industry, as it creates new methods for retail transactions. The most common type of e-commerce that affects retailer and manufacturer relationships in the apparel industry is point to point. These are proprietary e-commerce approaches that support a direct communication between trading partners. This could be manufacturer and retailer partnerships or retailer and consumer partnerships. Point to point approaches support these relationships by providing a convenient web site for transacting business by posting customized catalogs and order guides, facilitating the transmission of purchase orders, acknowledgements, invoices and other communications between buyers and sellers. If it is well executed, this approach allows customers to access stock status, order tracking, and credit information in real-time (IBM, 2002). For these reasons, this type of e-commerce is establishing itself at the center of the most successful retail operations.

Most of the sales growth during 2008 for retailers resulted from online activity. There are major advantages for retailers who have changed their methods of operation to include the Internet. Not only does technology allow them to react quickly to changing buyer behavior, but they can better meet the changing needs of customers ("Online Retailing," 2009). Sellers now have far more information about their customers, also. They can easily access data on past shopping patterns, and can quickly change prices and offerings where appropriate. In a rapidly changing retail environment, the agile retailer is the successful retailer.

The emergence of online intermediaries and new media channels provide retailers with new opportunities and challenges. In fact, the biggest challenge to the current retail marketplace is likely to come from e-commerce (Birkin & Clarke, 2002). Some branded manufacturers, like

Levi Strauss, have experimented with online retailing and have retracted that aspect of their business when expected results were unachieved. Instead, they opt to use their web sites as a way to market and shape their brands. Others, like Polo Ralph Lauren have decided to continue pursuing this channel of distribution (IBM, 2002). The costs and benefits must be weighed. Multi channel strategies provide the opportunity for increased market share and protect against new online players with the potential to steal customers.

Further opportunities are driven by breakthroughs in e-commerce, making agility a feasible achievement for retailers. More data can be shared on a business to business level as well as better serving the market on a direct to consumer basis (IBM, 2002). This is completely changing the relationship between the supplier, the retailer, and the consumer. As suppliers begin to reach consumers directly online, conflict can arise in the traditional value chain. This conflict spurs from the threat posed to retailers by manufacturers expanding their distribution channels to include online retailing. Consumers have a price incentive to order directly from manufacturers, but the result is a loss in customer sales at the retail level. Retailers may see decreased sales in their key product lines as well as reduced in-store traffic (IBM, 2002). This could potentially damage the vendor-retailer relationship. While powerful retailers could potentially demand that suppliers do not compete with them online, seeking a win-win partnership is the best approach to maintain successful and effective relationships (IBM, 2002).

Not only are positive relationships important at the vendor level, but they are crucial between the retailer and their consumers. The importance of successful relationships with consumers stems from core retail values which have always centered on customer service ("Online Retailing," 2009). Providing the customer with the products they want, when they want them, and at the prices they are prepared to pay have traditionally been the focuses of successful retailers. Being able to transfer this level of customer service to the online operations of a corporation is critical to success. Customers expect great service in-store, and they are the same customers who also buy via the Internet, thus they expect great service online ("Online Retailing," 2009). Agile retailers must treat their customers to the same experience and service, the same offers, and make the customers aware of all channels available to them. The Internet is a great resource for agile retailers because their customers experience the convenience of starting a transaction in-store and completing it from their home, or alternatively find a product online and reserve it and buy it in-store ("Online Retailing," 2009).

Maintaining customer relationships has been simplified by the Internet capabilities, as well. Retailers can easily collect and analyze customer information and behavior from online transactions, which is much more difficult to gather from store customers. Customers in-store may be reluctant to reveal personal information to salespeople, but making an online transaction requires the customer to enter their name, address, email address, as well as credit card information. The online transaction also links the information about what they bought and when they bought it, with their personal data. Once collected, this information can be used to present the customer with relevant offers and product information that will bring them back for more business, whether it be in-store or online ("Online Retailing," 2009). This is a huge opportunity presented by the Internet, because it gathers all the necessary information for a retailer to connect with their customers and to build customer loyalty. With the ease and speed of comparison shopping online, customer loyalty is becoming even more crucial. Customers no longer have to physically travel from store to store to compare prices, but can complete this research in just minutes spent on the Internet. Consumer research shows, however, that price is not the only factor which determines an online retail purchase. Speed of delivery, certainty of price, security of payment, and overall confidence in the retailer all plays a part ("Online Retailing," 2009). If a retailer proves themselves to consistently offer a better value to their customers than their competitors, they will earn the loyalty that leads to repeat sales.

Drawing customers to a retailer's Web site requires a well-coordinated strategy that uses each channel to further sales in the other (Epstein, 2002). Traditional retailers have an advantage over online-only operations because they offer storefronts to view, return, and exchange merchandise. Brick and mortar stores can be used to stimulate online sales by marketing the web site on store bags, receipts, and signs. Policies that allow customers to pick up or return items purchased online is another way to draw online customers into the physical store locations. While one e-commerce strategy does not fit all companies, thorough analysis of successes and failures in implementing e-commerce provides guidance to companies looking to formulate the best strategy. Full implementation into an organization can cause cross channel conflicts and strategies must be well managed to overcome such obstacles.

To balance sales strategies between manufacturers and retailers, an effective approach is setting up a "store-within-a-store." Utilizing this concept allows manufacturers to maintain control of their brand by providing images and content for online marketing. It also allows them to gain an online sales presence without having to incur start up costs or manage its operations. With manufacturer managed online boutiques, retailers gain the benefit of improved site quality without much added cost. In this joint outlet, retailers can focus on product delivery and manufacturers can focus on production and marketing. The "Store-within-a Store" concept is growing because it provides a great retail outlet for smaller, branded manufacturers. Nordstrom's version of this concept is called "Brand Boutiques" and they provide a model for cooperation between retailer and manufacturer (IBM, 2002). Current manufacturers marketing their brands on Nordstrom's website are: Garfield & Marks, Laundry, Kenneth Cole, and T3. While most of the online site is controlled by these manufacturers, the customer transactions occur through Nordstrom.com.

Ranked twenty fourth globally on *Fortune* Magazine's "World's Most Admirable Companies," Nordstrom is an excellent company to examine in order to learn about successful business operations (Nordstrom, Inc., 2009). The company's number forty ranking in the *Internet Retailer Top 500 Guide* gives it even more prestige in the retail industry's e-commerce evaluation ("Upscale Shoppers," 2008). Nordstrom has exceeded expectations of online luxury retailing, and not only have they achieved success in the Internet segment of their business since its 1998 inception, but they have experienced sales growth throughout all company divisions. This is quite impressive for a company in the retail industry, where e-commerce wasn't always considered worthwhile because of the face to face nature of retail sales. Nordstrom overcame this obstacle and the response has been overwhelming.

The Nordstrom.com site has been rated high for best design because of its large number of offerings, clear pictures, straightforward presentation, and customer service (Epstein, 2004). Evaluating the impact of e-commerce on a retailer is best completed by looking at a luxury retailer because their wealthier target market spend twice as much as other buyers online and spend more time online each week (Epstein, 2004). Nordstrom has successfully implemented many technologies to their website in areas where other retailers have failed. While some retailers are struggling to overcome the challenge of selling luxury items to online customers who have never seen the products in person (Epstein, 2004), Nordstrom has adapted quite well. They have transformed a simple website into a virtual reality that allows customers to experience in-store shopping as well as they can from home. Nordstrom has also strived to meet customer demands for seamless return policies pertaining to online orders.

Nordstrom began as a shoe store in 1901 and entered the apparel business in 1963. Today, it has evolved into one of the nation's largest upscale retailers, ranking 299th on the Fortune 500 ranking of America's largest corporations. Nordstrom is a fashion specialty retailer that offers a selection of apparel, shoes, cosmetics and accessories for women, men, and children ("Nordstrom," n.d.). Table 3 presents Nordstrom sales by merchandise category as a percentage of their net sales. Although shoes contribute significantly to the business, women's apparel has taken over as the top merchandise category for this former shoes-only retailer.

Table 3: Nordstrom Sales by Merchandise Category

Fiscal year	**2008**	**2007**	**2006**
Women's apparel	**34%**	35%	35%
Shoes	**21%**	20%	20%
Men's apparel	**16%**	18%	18%
Women's accessories	**12%**	11%	10%
Cosmetics	**11%**	11%	11%
Children's apparel	**3%**	3%	3%
Other	**3%**	2%	3%
Total	**100%**	100%	100%

The retailer operates 173 US stores in 28 states, as well as servicing customers through its online and catalog divisions (Nordstrom, Inc., 2009). Since its inception as a shoe retailer over a century ago, the company's philosophy has been based on exceptional service, selection, quality and value. Nordstrom's goal is to provide newness, fashion, quality, and brands to its customers with a best in-market selection (Nordstrom, Inc., 2009). In its role as a traditional retailer, Nordstrom focuses on the value chain activities involved with buying, distributing, marketing, and sales (IBM, 2002). In 2008, the company recorded revenues of $8,828 million, primarily driven by strong sales growth in designer apparel, women's accessories, and men's merchandise categories (Nordstrom, Inc., 2009).

Nordstrom, headquartered in Seattle, Washington, first expanded outside their traditional role as a "brick and mortar" store when they began the Nordstrom Direct division of their company in 1993. In the beginning, it was a catalog business. Today, it has grown to include the Internet business through Nordstrom.com, which launched in 1998. The call center for Nordstrom Direct houses about 60 employees to assist customers in their online and catalog purchases. Direct also employs about 900 people in their Cedar Rapids, Iowa- based distribution center where the majority of their order fulfillment services are conducted. The Cedar Rapids distribution center opened in 1997, but has recently doubled in size to accommodate the increasing demands of servicing customers online. Nordstrom continues to service these customers in house despite the popular trend of outsourcing. Nordstrom executives believe their competitive advantage comes from the expertise of their employees who are "...armed with all sorts of tools and have information to take care of just about any issue a Nordstrom customer might have" (Lamm, 2008). They are trained to help customers select the correct fit and size, and they suggest accessories and additional trend items to complete a customer's order.

Nordstrom was an early mover in luxury retailing online, offering a breadth of offerings to online customers before other retailers could (Epstein, 2004). The company has maintained this competitive edge, and today Nordstrom Direct is working toward the goal of transforming Nordstrom into a complete multi-channel retailer (Nordstrom, 2007). In 2003, the company completed an inventory convergence which expanded their Internet segment to match the number of catalog offerings (Epstein, 2004). Despite initial negativities toward implementing technology into their business, Nordstrom executives decided that "since we're open to fashion, we should be open to technology" (Nordstrom, 2007, p.211). Nearly $300 million later, information technology systems have been put into place that help control inventory, connect with customers, and better serve the customers. Better inventory balance between its brick and mortar stores and its e-commerce site has contributed greatly to higher Internet sales ("Upscale Shoppers," 2008). For 2009, Nordstrom expects to spend approximately $155 million on information technologies, which it now views as the key to sustaining growth and a competitive position (Nordstrom Inc., 2009).

The growth in Nordstrom Direct today, with net sales increased 8.4% in 2008 (see Table 4), indicates that many Nordstrom customers want to be served through multiple channels. Nordstrom's ability to do this well is contributing to overall sales growth (Nordstrom Inc., 2009).

Table 4: Nordstrom Financial Summary and Net Sales

Retail Stores, Direct and Other Segments

Summary

Fiscal year	2008	2007	2006
Net sales	**$8,272**	$8,828	$8,561
Cost of sales and related buying and occupancy costs	**(5,367)**	(5,479)	(5,316)
Gross profit[1]	**2,905**	3,349	3,245
Selling, general and administrative expenses	**(2,111)**	(2,183)	(2,205)
% of net sales:			
Cost of sales and related buying and occupancy costs	**64.9%**	62.1%	62.1%
Gross profit	**35.1%**	37.9%	37.9%
Selling, general and administrative expenses	**25.5%**	24.7%	25.8%

[1]Gross profit is calculated as net sales less Retail Stores, Direct and Other segment cost of sales and related buying and occupancy costs.

Net Sales

Fiscal year	2008	2007	2006
Net sales	**$8,272**	$8,828	$8,561
Net sales (decrease) increase	**(6.3%)**	3.1%	10.8%
Same-store sales (decrease) increase	**(9.0%)**	3.9%	7.5%
Sales (decrease) increase by channel:			
Full-line same-store sales	**(12.4%)**	2.5%	5.9%
~~Rack same-store sales~~	~~**3.1%**~~	~~8.7%~~	~~10.9%~~
Net sales - Direct	**8.4%**	17.9%	24.7%
Percentage of net sales by merchandise category:			
Women's apparel	**34%**	35%	35%
Shoes	**21%**	20%	20%
Men's apparel	**16%**	18%	18%
Women's accessories	**12%**	11%	10%
Cosmetics	**11%**	11%	11%
Children's apparel	**3%**	3%	3%
Other	**3%**	2%	3%
Total	**100%**	100%	100%

President Blake Nordstrom emphasized the importance of becoming a multi-channel retailer by stating that the multi-channel customer spends considerably larger amounts of money with the company than those customers who only visit in-store or those who only shop online. In fact, multi-channel customers now contribute 32% of the total sales for Nordstrom (Lamm, 2008).

Making necessary adjustments to their multichannel approach as customers' needs change is another strategy the Nordstrom team has implemented well. In 2005, they decided to eliminate $36 million of catalog ad spend, discontinuing their catalog strategy on June 30, 2005 (Hillstrom, 2007). Instead of targeting their niche customer group by direct-to-consumer catalogs, Nordstrom executives leveraged their marketing tools and merchandise to grow the overall business. They now focus on digital marketing to more efficiently and effectively reach their target customers. With the growing number of online shoppers, this strategy shift allows Nordstrom to better cater to their customers. Although the company initially experienced a slight decrease in their Direct Division sales, the online business has improved tremendously as a result of this transformation (Hillstrom, 2007).

Since its foundation, Nordstrom.com has been continuously attracting a diverse group of shoppers and satisfying their broad range of apparel need. The website has been visited by millions of visitors, with more than 3.7 million unique customers visiting in June 2006 alone (Dougherty, 2006). This channel of distribution has been extremely significant for the company and its reach continues to expand. In 2005, Nordstrom's Internet sales increased by 40.7% according to their annual report (Dougherty, 2006). This increase in online traffic can be largely accredited to the 684 online advertisements (see Figure 1) placed by the retailer in that same year (Dougherty, 2006). The large number of digital advertisements is the outcome of the $36 million dollar reduction in catalog spending, and this trade-off proved to be extremely effective. Shifting catalog customers to the Internet is highly cost effective for the company, and can result in a much more interactive and successful experience for the customer.

Figure 1: Nordstrom Digital Advertisement

The advertisement for Nordstrom's website is an example of how valued Nordstrom customers are now being reached through the online channel as opposed to receiving catalogs in the mail. E-mail advertisements can be sent much more frequently and can keep customers up to date on new arrivals at the store. Constant communication with the customers is essential to continuing a valued relationship as well as to help retain customers who may need reminders that Nordstrom would like to continue doing business with them. The e-mail communications are extremely informative and provide convenient links for customers to search for an item based on features such as size, color, or style. They also entice customers to make purchases online by offering free shipping on orders of $200 or more dollars. This is a great strategy for retaining customers, encouraging multi channel purchases, and increasing customer contact all at a very low cost to the company (Personal Observation).

The recently strong concentration on the Internet business has served as a lifeline for Nordstrom Inc. during economically challenging years. While many retailers, including Nordstrom, struggle to meet sales goals during tough financial times, the company's online sales continue to thrive. Growth is driven by efforts to better align the merchandise offering online and in the full-line stores. Despite a 4.3% decline in overall sales in the second quarter of 2008, Nordstrom Direct sales increased 15% (Lamm, 2008). Company executives expect online sales alone to contribute a tremendous $700 million to their total revenues, which would represent 8% of overall sales. Jamie Nordstrom, head of the Direct Division for the company, said that "A few years ago, we thought 10 percent would be a tough number to get beyond," but the current successes indicate that such a goal is not unrealistic for the near future (Lamm, 2008). Online sales are likely to surpass $1 billion in the near future.

While their customer base is expanding, the majority of Nordstrom.com visitors are affluent and upscale, with 46% of them making six figure earnings (Dougherty, 2006). Not only are Nordstrom customers affluent, but they are predominantly female. In June 2006, 78% of Internet visitors were females between the ages twenty five and fifty four (Dougherty, 2006).

Nordstrom is extremely successful at transforming these statistics into profitable actions for the company. As consumers increase their expectation level with regard to online content and capabilities, Nordstrom is at the forefront of updating technology. To satisfy its upscale Internet customer, the company launched a "Designer Collections" area on Nordstrom.com in February 2006 (Dougherty, 2006). This site was unique in its appearance and background music, as well as the designers featured. Nordstrom implemented this area of their website to mimic the offline boutique shopping experience. The use of video technology in this area has enabled customers to become more involved with the experience of shopping online. Using "Design to Inspire" videos, the designers of the merchandise for sale discuss the styles and inspiration of their items, and make recommendations for accessorizing these items depending on the occasion (Moin, 2008). Customers can learn a lot from the designers about the products before purchasing, simulating the in-store shopping experience without ever stepping foot in a store. Customers can also search for items based on factors such as brand, size, price, or occasion, easing the process of searching a large website for one specific product.

Today, Nordstrom is on the cutting edge of technology and as a result, they're seeing better company-wide performance. Technology may not be the sole reason for this improvement, but it plays a major role. The company is now turning over inventory a lot better, resulting in improved operating margins and thus larger profitability. Nordstrom has allowed technology to work for them, but hasn't let it replace the significant roles of high quality employees. They still focus on superior customer service even when dealing with online shoppers because this is, and always has been, their point of difference in the retail world (Nordstrom, 2007). Erik Nordstrom, store president, has stated that his family's legacy is "focused less about the latest super cool technology, and more about the customer interaction" (Byrnes, 2007, p.2). To successfully integrate the two, Nordstrom's online presence has focused on offering convenience through the Internet alongside specialized customer service.

Expanding the number of sales channels available to Nordstrom customers has enabled the corporation to reach a wider customer base, in addition to their already broad product and service offerings. Nordstrom still offers its customers a catalog order option, but the company's direct sales business is moving more towards online sales ("Nordstrom," n.d.). They are continually working to provide a strong online presence through www.nordstrom.com by launching new updates to their website as new technology becomes available. Their online system includes a real-time inventory system which removes items from the website when they are nearly depleted from the distribution center. This way, customers never face the dissatisfaction of receiving an "out-of-stock" message on the check-out screen. In 2005, they launched a broadband video channel at nordstromsilverscreen.com as part of their multi-channel marketing initiative. Just one year later, they enhanced the Designer Collections website, and in 2008 introduced "Buy Online, Pick Up In-Store." This new service gave Internet shoppers the option to select merchandise through Nordstrom.com and then pick it up at a Nordstrom location of their choice ("Nordstrom," n.d.). Not only does this option satisfy impatient customers who cannot wait, nor want to pay the shipping charge, for their purchases to be delivered, but it coaxes shoppers to the brick-and-mortar locations where salespeople have the opportunity to sell them additional items (Byrnes, 2007). Nordstrom's success at adapting to the latest technology has enabled them to grow online retail spending as well as their overall sales, while providing a cost-effective means of increasing brand awareness.

Nordstrom has also looked for other ways to use the Internet to improve their customer relationships and thus their sales. Inventory technology allows salespeople to more accurately and quickly find inventory available for their customers across all Nordstrom locations, including shipping centers. Customers no longer have to spend their own time calling other stores looking for a certain size or color, nor do they have to wait on salespeople to do this. A single view of inventory available to all online and in-store sales people makes this possible in a matter of seconds (Personal observation). When the item desired by the customer appears in the inventory at a location other than where they are shopping, a salesperson can simply complete a "direct to consumer" transaction, which will indicate to the other store that the item has been purchased and needs to be shipped to the customer (Personal observation).

Another new technology was implemented for employees to use in-store which compiles customer information in a database that is easily accessible from all point of sale registers. Personal Book, this register tool, empowers salespeople to be proactive in serving their customers. Employees can keep track of every customer they have personally worked with, and can make reminders to themselves to contact individual customers when a special sale, trunk show, or event is taking place that may interest that specific customer. It allows the salespeople to "remember" the specific styles or sizes that their customers typically purchase so they can be prepared to fully service the customer during their next visit.

Alerting customers by email when their alterations are ready to be picked up, or when bonus shopping days for Fashion Rewards members are occurring is another great use of technology that Nordstrom has implemented. To appeal to their younger customers, Nordstrom is now experimenting with text messaging as a medium for promotional updates as well. The goal of text messaging is to increase awareness of sales and other in-store events and thus increase in-store traffic. Bringing customers into the store provides Nordstrom salespeople the opportunity to offer their expertise in personal selling and to build loyal customer relationships (Personal Observations). By utilizing multi-channel technology, salespeople have seen growth in their sales. Nader Shafii, a personal shopper for Nordstrom, keeps 5,000 customers in a database and routinely reaches out to 500 of them. He says he's selling 37% more merchandise as a result (Byrnes, 2007).

As an increasing number of firms in the fashion apparel industry are becoming more vertically integrated, department and specialty stores such as Nordstrom must focus on differentiating themselves. They must add value to the consumer's shopping experience, or they risk consumers switching to lower priced channels for apparel shopping. Nordstrom's focus on catering to individual customers' needs has proven to be a successful differentiation strategy. Instead of categorizing the departments within their store by merchandise, they have created fashion departments that align with individuals' differing lifestyles (Nordstrom, Inc., 2009).

Not only has e-commerce contributed significant sales revenues to the company, but the implementation of e-commerce into their business has also been a cost cutting strategy for Nordstrom. Internet usage has replaced the need to incur large acquisition costs by sending out expensive catalogs to potential customers (Epstein, 2004). This strategy aligns with the company wide focus on operating an efficient and profitable business. Other cost reductions through e-commerce implementation include savings in administrative, customer service, material acquisition, distribution, and sales costs. Improvements in other online activities such as ordering, invoicing, tracking, payment, and delivery also reap the cost benefits of e-commerce

(Epstein, 2004). For Nordstrom, managing expenses does not include cutting quality out of the shopping experience (Nordstrom Inc., 2009). Rather, the company makes adjustments that coincide with changes in consumer behavior and consumer preferences.

The return policy for purchases made online at Nordstrom is one way they integrate the quality of the in-store shopping experience with their online site. Returns and support are a largely important aspect of e-commerce customer service (Epstein, 2004). Since the nature of the apparel industry requires physical examination of products to assess satisfaction, it is important that retailers adjust accordingly and offer generous return policies. Nordstrom, in an effort to encourage online shoppers to experiment with numerous products, includes full return shipping papers with all purchases (Epstein, 2004). This allows online shoppers to try on items for fit and to examine quality, color, and other characteristics that cannot be evaluated through a computer screen, and to keep only their favorite items. Customers have the choice of making returns through the mail or at a physical store for added convenience options. All returns are accepted regardless of the reason.

Although the unconditional return policy definitely invites abuse, the Nordstrom executives tracked the costs of the return policy for the first year and found that they could afford to maintain it (Spector & McCarthy, 2000). In today's technologically savvy world, returns are so seamless for consumers that receipts aren't even a requirement for Nordstrom returns. All items are tagged with a barcode at the time and place of purchase. The barcode is encoded with all the necessary information about that purchase, including price, discounts received, and the salesperson that completed the transaction. If a customer brings an item back one year after purchase, the barcode will produce all the data necessary to complete the return (Personal observation).

With returns occurring constantly as a result of Nordstrom's laid-back policy, Nordstrom must recognize the financial impact of these sales returns. The company recognizes revenues net of estimated returns and they exclude sales taxes. They then estimate the amount of goods that will be returned and reduce sales and cost of sales accordingly. Expected returns are estimated based on historical return patterns and use management judgments (Nordstrom Inc., 2009). Although this technique effectively assesses net sales for the corporation as a whole, each individual store performance is undermined by the large amounts of returns. With consumers making returns in store for items purchased online, inventory at the physical stores may increase and at the end of the day, deficits may not be able to be overcome. Each department has sales goals to reach each day. The goals are in terms of net sales dollars. Transactions are recorded at the point of sale register and department summaries are produced in real time. This management system gives all employees easy access to their sales results. Large returns in a department coupled with small sales for one day could result in an overall net loss (Personal observation).

This is where the seamless return policy begins to impact performance measures and restricts departments from achieving their sales goals. Inventory being returned to the Oakbrook, IL store, for example, could have originally been purchased at the Chicago store. While the Chicago store got credit for the sale of that merchandise, the Oakbrook store had to absorb the extra inventory and record the value of the return in their departmental sales figures. Returns from online purchases have the same impact when they are completed in store. Maintaining this type of return policy for online purchases does have its implications on physical store locations performances, but the customer satisfaction gained from this service outweighs these negative implications.

As technology continues to advance and Nordstrom continues to update their processes, the net sales across multiple channels are likely become more accurately managed. Nordstrom should work towards a system which would separate online purchases from in-store purchases, regardless of the return location. This would ensure that the returns from online purchases do not undermine sales performances at brick and mortar stores. For example, all customer purchases made on Nordstrom.com could be tagged using barcodes that all end with a "D" to indicate that the purchase was made through Nordstrom Direct. If an item marked with a "D" is returned at a physical store, then the barcode would recognize that the item was initially purchased through Nordstrom Direct. The information from the return could then be sent to Nordstrom Direct through company Intranet and would impact the net sales of that segment only. This would make same store sales much more accurate, would make net sales goals for individual stores much more achievable, and would make reports for each segment's performance much more beneficial.

Net sales for Nordstrom over the past few years have been on the decline. Some of the decreases can be credited to the economic challenges that have made consumers much more conscious of their discretionary spending. The financial reports bring attention, however, to the increase in Nordstrom Direct sales despite reduced consumer spending. Perhaps this can be attributed to the technological advancements that create an exceptional experience for Nordstrom shoppers online. Growth in online sales is definitely a positive contribution to overall sales, but the impact it has on the same store sales have been detrimental. The following financial report indicates the 12.4% loss in full-line same store sales in 2008, as opposed to growth of 2.5% and 5.9% in the two respective years prior (see Table 5). The growth in the Nordstrom Direct segment of 8.4% partially offsets the declines in full-line store sales (Nordstrom Inc., 2009).

Although the decision to begin selling online was initially full of uncertainties, Nordstrom has definitely found their Internet sales to be extremely advantageous for the company. It has not only resulted in cost savings, but has produced revenue growth and has expanded their customer reach. Customers anywhere in the country can now shop with Nordstrom, including residents of the twenty two states where there are no physical stores located.

Table 5: Nordstrom Net Sales 2006-2008

Net Sales

Fiscal year	2008	2007	2006
Net sales	$8,272	$8,828	$8,561
Net sales (decrease) increase	(6.3%)	3.1%	10.8%
Same-store sales (decrease) increase	(9.0%)	3.9%	7.5%
Sales (decrease) increase by channel:			
Full-line same-store sales	(12.4%)	2.5%	5.9%
Rack same-store sales	3.1%	8.7%	10.9%
Net sales - Direct	8.4%	17.9%	24.7%
Percentage of net sales by merchandise category:			
Women's apparel	34%	35%	35%
Shoes	21%	20%	20%
Men's apparel	16%	18%	18%
Women's accessories	12%	11%	10%
Cosmetics	11%	11%	11%
Children's apparel	3%	3%	3%
Other	3%	2%	3%
Total	100%	100%	100%

Decreases in the amount of same store sales indicate another major challenge for retailers, which is the possibility of reduced in-store traffic as a result of successful Internet marketing. In reality, e-commerce is sometimes about "stealing your own customers" (Epstein, 2004). As customers become accustomed to the ease, value, and convenience of online shopping, they may forgo traditional shopping trips. While this may be a concern to some retailers, a company should prefer that customers be "lost" to their website rather than being "lost" to a competitor (Epstein, 2004). Regardless of a transaction taking place via Internet or in-store, it is an important contribution to the success of the corporation. The challenge is to stay connected with those customers who may purchase infrequently or who only choose to shop through one of the company's channels. Too much of a focus on the multi-channel customers could cause other Nordstrom spenders to feel neglected and thus spend their money elsewhere.

Nordstrom does not view the Internet as a threat to its stores, however. Rather, they see electronic commerce as a marketing tool. For them, it is another way to deliver merchandise to customers. It is a tool that will help expand their service to customers. As a retail analyst once said, "Ultimately, it comes down to a risk-reward issue. Many retailers view the Web as a money pit. But as online shopping becomes more compelling, more people will be willing to take the risk. As a retailer, you either have to play to win or don't play at all" (Spector & McCarthy, 2000, p.214).

Evaluation of Nordstrom's four segments of operation is best accomplished by comparison of financial data. The most recently reported data is from fiscal year 2008. Nordstrom's fiscal year ends on the Saturday closest to January 31st. Therefore, fiscal year 2008 refers to the 52 week period ended January 31, 2009 (Nordstrom, Inc., 2009). The following consolidated financial statement, with dollar and share amounts listed in millions, reiterates how Nordstrom Direct is growing while Nordstrom Retail begins to struggle (see Table 6).

A major benefit of Nordstrom's online business is the low cost of capital and the small depreciation and amortization expenses as compared to the retail store businesses. All of Nordstrom's online business is conducted via their Iowa distribution center, resulting in cost reductions in administrative, distribution, and sales costs, among many others. Customers from all across the country can be serviced by a small team of Nordstrom employees at one central location. Despite the pros and cons associated with Internet retailing, it is evident that Nordstrom

Direct Division, driven by e-commerce, has positively impacted the company's overall retail performance. In fact, the company anticipates Nordstrom.com being a major part of their future.

Table 6: Nordstrom Financial Performance by Segment and Total

Fiscal year 2000	Retail Stores	Direct	Credit	Other	Total
Net sales (a)	$7,674	$698	-	$(100)	**$8,272**
Net sales (decrease) increase	(5.9%)	8.4%	N/A	N/A	**(6.3%)**
Credit card revenue	-	-	302	(1)	**301**
Other income and expense, net	(5)	-	1	13	**9**
Interest expense, net (b)	-	-	(50)	(81)	**(131)**
Depreciation and amortization	259	8	1	34	**302**
Earnings before income taxes	884	187	(72)	(351)	**640**
Earnings before income taxes as a percentage of net sales	11.5%	26.8%	N/A	N/A	**7.8%**
Goodwill	38	15	-	-	**53**
Assets (c)	2,740	123	1,963	835	**5,661**
Capital expenditures	529	15	2	17	**563**

In the battle for customers in the retail business, Nordstrom has risen to the top. The power of their brand name has proven to be instrumental to their success. This is especially crucial to building a business online because the Internet is "just bits and bytes; there's nothing to touch and feel. The branded essence becomes the bridge of confidence between the site and the consumer" (Spector & McCarthy, 2000, p.214). As stated by Robert A. Schwartz, general manager of Internet business at Nordstrom, building this brand power has been, and will continue to be, the focus for growing the company's website. Despite the enormous number of challenges that Nordstrom will likely face in the future due to increased competition, they are confident in their ability to out-perform competitors. As Dan Nordstrom once said, "We are convinced that online shopping will be a major part of our future. In particular, those retailers who offer their customers a fully integrated combination of stores, catalog, and Internet shopping will have a significant service advantage" (Spector & McCarthy, 2000, p.212). This is exactly the advantage Nordstrom plans to offer indefinitely into the future.

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